THABAZIMBI LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2011

General Information

Legal form of entity	Local municipality
Mayoral committee	Cllr. P.A. Mosito (Mayor) Cllr. J.M. Fischer Cllr. S.G. Matsietsa Cllr. T.D Mkansi Cllr. L.H. Joubert
Mayor	Cllr. P.A. Mosito (Mayor)
Councillors	Cllr. V.S. Mothoa (Speaker) Cllr. N.D. Tlhabadira (Chief Whip) Cllr. K.R. Mokwena Cllr. P.A. Scruton Cllr. S.G. Lerumo Cllr. T.D. Mkansi Cllr. S.I. Manala Cllr. M.L. Sikhwari Cllr. T.D. Molefe Cllr. C.S. Sikwane Cllr. D.A. Moatshe Cllr. J.M. Fischer Cllr. S.G. Matsietsa Cllr. B.N. Maguga Cllr. A.S. Khumalo Cllr. M.L. Moselane Cllr. R.A. Ramogale Cllr. R.C. Du Preez Cllr. L.H. Joubert Cllr. F. Loots Cllr. P.J. Strydoom
Audit committee members	Mr I.W. Modisha (Chair) Mr L.E. Mphahlele Mr F. Van Der Westhuizen Mrs L. Molope
Grading of local authority	Low capacity municipality
Accounting Officer	Mr. T.S.R. Nkhumise
Chief Finance Officer (CFO)	Mr. T.B. Mothogoane
Business address	7 Rietbok Street Thabazimbi 0380
Postal address	Private Bag X 530 Thabazimbi 0380
Bankers	ABSA bank limited
Auditors	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
D.W.A.F.	Department of Water Affairs and Forestry
GRAP	Generally Recognised Accounting Practice
EPWPIG	Expanded Public Works Programme Incentive Grant
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
ASB	Accounting Standards Board
MSIG	Municipal Systems Improvement Grant
FMG	Finance Management Grant
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployeement Insurance Fund
VAT	Value Added Taxation
LG SETA	Local Goverment Sector Education Training Programme

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 74, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

Mr. T.S.R. Nkhumise
Municipal Manager / Accounting Officer
31 August 2011

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 15,073,709 (2010: deficit R 2,154,436).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any significant matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts awarded.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr. T.S.R. Nkhumise	South African

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in MFMA(Municipal Finance Management Act, No.56 of 2003). The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Councillors

The Council:
- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising:
  - \- councillors, all of whom are independent councillors as defined in the Code

Chair person

The Chairperson is an independent councillor (as defined by the Code) with responsibilities divided so that no individual has unfettered powers of discretion.

Executive meetings

The accounting officer has met with the executive members on 6 separate occasions during the financial year. The accounting officer scheduled to meet with the executive members at least 6 times per annum.

Councillors have access to all members of management of the municipality.

Audit committee

Mr I.W. Modisha was the chairperson of the audit committee. The committee met 10 times during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, the municipality must appoint members of the Audit Committee. Notwithstanding that councillors appointed by the municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not councillors of the municipal entity onto the audit committee.

Internal audit

The municipality has employed a chief internal auditor for the year under review.

Mr. P.H. Makhuvha

8. Bankers

The municipality banks primarily with ABSA Bank Limited.

9. Auditors

The Auditor General will continue in office for the next financial period.

10. Public Private Partnership

In accordance with the Public Private Partnership agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:
- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

Statement of Financial Position

Figures in Rand	Note(s)	2011	Restated 2010
Assets			
Current Assets			
Inventories	9	3,099,266	2,453,870
Trade and other receivables from exchange transactions	10	544,469	1,701,824
VAT receivable	11	8,454,672	11,513,141
Consumer debtors	12	8,880,806	13,927,475
Cash and cash equivalents	13	34,334	14,430
		21,013,547	**29,610,740**
Non-Current Assets			
Biological assets	3	1	1
Investment property	4	1	1
Property, plant and equipment	5	81,638,881	46,676,499
Intangible assets	6	103,621	103,621
Other financial assets	7	3,074,503	2,853,134
		84,817,007	**49,633,256**
Total Assets		**105,830,554**	**79,243,996**
Liabilities			
Current Liabilities			
Other financial liabilities	14	1,627,513	2,233,793
Operating lease liability		328,163	-
Trade and other payables from exchange transactions	18	51,378,248	36,155,344
Consumer deposits	19	3,104,524	3,043,039
Unspent conditional grants and receipts	16	2,483,331	-
Provisions	17	8,400,621	6,159,295
Bank overdraft	13	3,200,785	10,743,288
		70,523,185	**58,334,759**
Non-Current Liabilities			
Other financial liabilities	14	7,351,819	7,355,955
Finance lease obligation	15	-	207,487
Retirement benefit obligation	8	11,790,584	12,377,059
Provisions	17	6,555,125	6,432,599
		25,697,528	**26,373,100**
Total Liabilities		**96,220,713**	**84,707,859**
Net Assets		**9,609,841**	**(5,463,863)**
Net Assets			
Accumulated surplus / (Loss)		9,609,841	(5,463,863)

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Rendering of services		613,796	317,954
Property rates	21	15,833,554	8,895,411
Service charges	22	76,825,748	54,421,114
Rental of facilities and equipment		498,382	590,610
Interest received (trading)		3,953,069	5,113,741
Licences and permits		5,889,994	2,065,035
Government grants & subsidies	23	81,954,778	62,323,125
Recoveries		-	172,778
Other income	25	3,203,005	3,273,959
Interest received - investment	30	268,753	1,487,875
Total Revenue		**189,041,079**	**138,661,602**
Expenditure			
Employee Cost	28	60,573,903	49,783,769
Remuneration of councillors	29	6,102,991	5,757,472
Finance costs	32	1,097,634	2,051,414
Debt impairment		12,913,814	4,508,265
Repairs and maintenance		21,045,897	22,339,877
Bulk purchases	35	51,717,734	35,654,110
Contracted services		17,029	2,016
Grants and subsidies paid	34	970,867	4,384,615
General Expenses	26	20,250,110	16,952,049
Total Expenditure		**174,689,979**	**141,433,587**
Gain on disposal of assets and liabilities		722,609	617,549
Surplus / (deficit) for the year		**15,073,709**	**(2,154,436)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / (Loss)	Total net assets
Opening balance as previously reported	13,889,618	13,889,618
Adjustments		
Prior year adjustments	(17,199,057)	(17,199,057)
Balance at 01 July 2009 as restated	**(3,309,439)**	**(3,309,439)**
Changes in net assets		
Surplus for the year	(2,154,436)	(2,154,436)
Total changes	(2,154,436)	(2,154,436)
Balance at 01 July 2010	**(5,463,868)**	**(5,463,868)**
Changes in net assets		
Surplus for the year	15,073,709	15,073,709
Total changes	15,073,709	15,073,709
Balance at 30 June 2011	**9,609,841**	**9,609,841**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Rates		11,838,981	3,305,036
Services charges		72,953,175	56,089,430
Grants		84,438,109	62,323,125
Interest income		268,753	1,487,875
Other income		23,179,348	24,225,459
		192,678,366	147,430,925
Payments			
Employee costs		(66,676,894)	(52,728,079)
Suppliers		(82,062,386)	(80,883,673)
Finance costs		(1,097,634)	(2,051,414)
		(149,836,914)	(135,663,166)
Net cash flows from operating activities	36	**42,841,452**	**11,767,759**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(34,962,382)	(24,832,203)
Proceeds from sale of property, plant and equipment	5	722,609	-
(Increase) / Decrease in sale of financial assets		(221,369)	15,776,144
Net cash flows from investing activities		**(34,461,142)**	**(9,056,059)**
Cash flows from financing activities			
Decrease in other financial liabilities		(610,416)	(7,179,270)
Finance lease payments		(207,487)	(288,581)
Net cash flows from financing activities		**(817,903)**	**(7,467,851)**
Net increase/(decrease) in cash and cash equivalents		**7,562,407**	**(4,756,151)**
Cash and cash equivalents at the beginning of the year		(10,728,858)	(5,972,707)
Cash and cash equivalents at the end of the year	13	**(3,166,451)**	**(10,728,858)**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, as prescribed by the Municipal Finance Management Act, Act 56 of 2003.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous year.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. .

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 8&17 - Provisions.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost / (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

When other rates are used it will be disclosed in the note.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Biological assets

An entity shall recognise a biological assets or agricultural produce when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less point-of-sale costs.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

The fair value of milk is determined based on market prices in the local area.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to a biological assets measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on biological assets where fair value cannot be determined, to write down the cost, less residual value, by equal installments over their useful lives as follows:

Item	Useful life
Other bearer biological assets	Still to be defined

1.2 Biological assets (continued)

Transitional provision

The municipality changed its accounting policy for biological assets and/or agricultural produce in 2011. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to recognise or measure biological assets and/or agricultural produce for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Agriculture. Biological assets and/or agricultural produce has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where biological assets and/or agricultural produce was acquired through a transfer of functions, the municipality is not required to measure that biological assets and/or agricultural produce for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and biological assets and/or agricultural produce has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and biological assets and/or agricultural produce is recognised and measured in accordance with the requirements of the Standard of GRAP on Biological assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Agriculture implies that any associated presentation and disclosure requirements need not be complied with for biological assets and/or agricultural produce not measured in accordance with the requirements of the Standard of GRAP on Agriculture.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The fair value of investment properties has not been reviewed as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the the fair value of all its investment properties. A service provider was acquired to assist with the process.

1.3 Investment property (continued)

Transitional provision

The municipality changed its accounting policy for investment property in 2011. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 4. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and investment property has accordingly been recognised at provisional amounts, as disclosed in 4.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

1.4 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revalutation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Property, plant and equipment are not depreciated as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the residual values and usefull life of all assets. A service provider was acquired to assist with the process.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Item	**Average useful life**
Buildings	20 years
Plant and machinery	
• Buildings	30 years
• Specialist vehicles	10 years
• Specialised plant and equipment	5 years
• Bins and containers	5 years
• Landfill sites	5 years
• Quarries	5 years
• Emergency equipment	7 years
Furniture and fixtures	5 Years
Motor vehicles	5 years
Office equipment	7 years
IT equipment	5 years
Infrastructure	
• Roads and Paving	10 years
• Pedestrian Malls	10 years
• Electricity	20 years
• Water	20 years

1.4 Property, plant and equipment (continued)

• Sewerage	20 years
Community	
• Buildings	30 years
• Recreational Facilities	30 years
• Security	5 years
• Halls	30 years
• Libraries	30 years

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 5. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 5.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.5 Intangible assets

An asset is identified as an intangible asset when it:
- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

1.5 Intangible assets (continued)

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are not amortised as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the residual values and usefull life of all assets. A service provider was acquired to assist with the process.

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Transitional provision

The municipality changed its accounting policy for intangible assets in 2011. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in 6. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where intangible assets was acquired through a transfer of functions, the municipality is not required to measure that intangible assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and intangible assets has accordingly been recognised at provisional amounts, as disclosed in 6.

Until such time as the measurement period expires and intangible assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets.

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at settlement date.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment in other comprehensive income and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Accounting Policies

1.6 Financial instruments (continued)

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to / (from) economic entities

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

1.6 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

1.8 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Transitional provision

The municipality changed its accounting policy for inventories in 2011. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 9. The transitional provision expires on 30 June 2012

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and inventories has accordingly been recognised at provisional amounts, as disclosed in 9.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation / (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation / (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

1.9 Impairment of cash-generating assets (continued)

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

1.10 Employee benefits (continued)

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goodsor services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.10 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.10 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

1.10 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.11 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.11 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.14 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.15 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.17 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

1.20 Presentation of currency

These annual financial statements are presented in South African Rand.

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.22 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.24 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

Accounting Policies

1.25 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

2. New standards and interpretations (continued)

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;

2. New standards and interpretations (continued)

- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

The impact of this standard is currently being assessed.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

2009 Annual Improvements Project: Amendments to IAS 39 (AC 133) Financial Instruments: Recognition and Measurement

2. New standards and interpretations (continued)

In terms of the amendment, forward contracts to buy or sell an acquiree that will result in a business combination in the future, are only exempt from the Standard if the term of the contract does not exceed that which is reasonably necessary to obtain the required approval and complete the transaction. The amendment further clarifies that in a cash flow hedge of a forecast transaction, gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects surplus or deficit. The amendment also clarifies that a prepayment option is not closely related to the host contract unless the exercise price is approximately equal to the present value of the lost interest for the remaining term of the host contract.

The effective date of the amendment is for years beginning on or after 01 January 2010.

The municipality has adopted the amendment for the first time in the 2011 annual financial statements.

The impact of the amendment is not material.

IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities

The interpretation applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

- recognised as part of the cost of an item of property, plant and equipment in accordance with the Standard of GRAP on Property, Plant and Equipment (as revised in 2010); and
- recognised as a liability in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010) .

The interpretation addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

- a change in the estimated outflow of resources embodying economic benefits (e.g. cash flows) or service potential required to settle the obligation;
- a change in the current market-based discount rate as defined in paragraph .52 of the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010) (this includes changes in the time value of money and the risks specific to the liability); and
- an increase that reflects the passage of time (also referred to as the unwinding of the discount).

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality expects to adopt the interpretation for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP 3: Determining Whether an Arrangement Contains a Lease

This Interpretation of the Standards of GRAP does not apply to arrangements that are, or contain, leases excluded from the scope of the Standard of GRAP on Leases (as revised in 2010).

The issues addressed in this Interpretation of the Standards of GRAP are:

- how to determine whether an arrangement is, or contains, a lease as defined in the Standard of GRAP on Leases (as revised in 2010);
- when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and
- if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality expects to adopt the interpretation for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions

This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of assets in exchange transactions directly or through subcontractors. The construction of assets entered into by entities where funding to support the construction activity will be provided by an appropriation or similar allocation of general government revenue or by aid or grant funds are excluded from the scope of this Interpretation of the Standards of GRAP.

Agreements in the scope of this Interpretation of the Standards of GRAP are agreements for the construction of assets in exchange transactions. In addition to the construction of assets in exchange transactions, such agreements may include the delivery of other goods or services.

The Interpretation of the Standards of GRAP addresses two issues:

- Is the agreement within the scope of the Standard of GRAP on Construction Contracts (as revised in 2010) or the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010)?
- When should revenue from the construction of assets in exchange transactions be recognised?

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality expects to adopt the interpretation for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP 10: Assets Received from Customers

This Interpretation of the Standards of GRAP applies to the accounting for the receipt of items of property, plant and equipment by entities that receive such assets from their customers.

Agreements within the scope of this Interpretation of the Standards of GRAP are those in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP does not apply to agreements in which the receipt occurs as part of a non-exchange transaction as defined in the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), or infrastructure used in a public-private partnership agreement (see the Guideline on Accounting for Public-private Partnerships), or assets received in a transfer of functions.

The Interpretation of the Standards of GRAP addresses the following issues:

- Is the definition of an asset met?
- If the definition of an asset is met, how should the received item of property, plant and equipment be measured on initial recognition?
- If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- How should the entity account for a receipt of cash from its customer?

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality expects to adopt the interpretation for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

2. New standards and interpretations (continued)

IGRAP 13: Operating Leases – Incentives

In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent free or at a reduced rent.

The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality expects to adopt the interpretation for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease

An entity may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an investor) that involves the legal form of a lease. For example, an entity may lease assets to an investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly. In the lease and leaseback example, it may be that the arrangement is designed to achieve a tax advantage for the investor that is shared with the entity in the form of a fee, and not to convey the right to use an asset.

When an arrangement with an investor involves the legal form of a lease, the issues are:

- how to determine whether a series of transactions is linked and should be accounted for as one transaction;
- whether the arrangement meets the definition of a lease under the Standard of GRAP on Leases (as revised in 2010); and, if not,
  - whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the entity;
  - how the entity should account for other obligations resulting from the arrangement; and
  - how the entity should account for a fee it might receive from an investor.

The effective date of the interpretation is for years beginning on or after 01 April 2011.

The municipality expects to adopt the interpretation for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 1 (as revised 2010): Presentation of Financial Statements

The revision resulted in various terminology and definition changes.

Additional commentary has been added, describing the purpose of financial statements in the public sector.

Commentary has been added to explain that where legislation requires a departure from a particular Standard of GRAP and that departure is material, entities cannot claim compliance with the Standards of GRAP.

Additional disclosure requirements have been added regarding the following areas: assets and liabilities included in disposal groups classified as held for sale, biological assets, deferred tax assets (liabilities), tax expense, post-tax surplus or deficit and the use of transitions provision in the accounting policy.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 2 (as revised 2010): Cash Flow Statements

The revision resulted in various terminology and definition changes.

Operating cash flows:
- Where an entity is in the business of renting and subsequently selling the same assets, these cash flows should be regarded as operating rather than investing cash flows.

Investing cash flows:
- Only expenditures incurred on a recognised asset qualify to be classified as investing activities in the cash flow statement.

Acquisitions and disposals of controlled entities and other operating units:
- Guidance relating to acquisitions and disposals of entities, particularly those on another basis of accounting, has been deleted.

Disclosure of undrawn borrowing facilities, restricted cash balances and the operating, investing and financing cash flows of jointly controlled entities accounted for using the proportionate consolidation method, now encouraged rather than required.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors

The revision resulted in various terminology and definition changes.

Paragraphs added to Changes in accounting policies
- A change from one basis of accounting to another basis of accounting is a change in accounting policy.
- A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

Selection of accounting policies
- The reference to the Accounting Practices Committee (APC) of SAICA has been deleted from paragraph .11 on the basis that it is not a standard setter and that entities would consider information from a wide range of sources in formulating an accounting policy and not just the pronouncements of the APC.
- Commentary on the selection of benchmark and alternative accounting policies has been deleted.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 9 (as revised 2010): Revenue from Exchange Transactions

The revision resulted in various terminology and definition changes.

Dividends or similar distributions declared from pre-acquisition surpluses:
Paragraph .36 has been amended to encompass not only securities, but any contributed capital.

Various amendments, deletions and additions to examples included in the appendix.

All amendments to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

2. New standards and interpretations (continued)

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 11 (as revised 2010): Construction Contracts

The revision resulted in certain terminology changes:

Other amendments:

- An example has been added to clarify when an entity acts as a contractor in a construction contract arrangement.
- The example in paragraph .11 has been deleted as it is inappropriate for the South African public sector.
- The explanatory text relating to 'contractors' has been amended to clarify that an entity can be a contractor if it performs construction related activities itself or through subcontractors.

All amendments to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 12 (as revised 2010): Inventories

The revision resulted in various terminology and definition changes.

Cost formulas:
Paragraph .34 was amended and .35 was added to separate the principle from the exception when applying the cost formula for inventories with a similar nature and use to the entity.

Recognition as an expense:
Where reference has been made to 'net realisable value', 'current replacement cost' has been added.

Fair value measurement:
The appendix on how to determine fair value has been deleted.

All amendments to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 13 (as revised 2010): Leases

The revision resulted in various terminology and definition changes.

Scope:
Paragraph .04 has been included to clarify that this Standard does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights and licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Non-current Assets Held for Sale and Discontinued Operations:
Paragraph .51 has been added to clarify that finance lease assets classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations shall be accounted for in accordance with that Standard.

Guidance on accounting for finance leases by lessors:
The paragraph (previously paragraph .53) that provided guidance on the recognition of assets where entities enter into arrangements with private sector entities has been deleted as the Guideline on Accounting for Public Private Partnerships supersedes this guidance.

2. New standards and interpretations (continued)

Guidance on operating lease incentives and substance over legal form:
The guidance included in the original text on substance over legal form has been deleted.

Classification of leases on land and buildings elements:
The guidance on the classification of land and buildings has been amended to ensure that the element of the lease relating to the land is classified as a finance lease where significant risks and rewards have been transferred, despite there being no transfer of title, consistent with the general classification guidance.

All amendments to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 14 (as revised 2010): Events After the Reporting Date

Existence of a liability for dividends or similar distributions:
Paragraph .13 of GRAP 14 was amended to clarify that no liability exists at the reporting date for dividends or similar distributions declared after the reporting date.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 16 (as revised 2010): Investment Property

The revision resulted in various terminology and definition changes.

Recognition of investment property:
- Additional commentary has been included in paragraph .19 and .20 to explain paragraph .18 that outlines the recognition criteria for investment property.
- This Standard includes investment property under construction as it was inconsistent with the requirement that investment property being redeveloped was still within the scope of this Standard, but not the initial development. As a result paragraphs .10 and .11 were amended, paragraphs .60 and .61 inserted, and paragraphs .25 and .65(e) of the original text deleted.
- The measurement principles were also amended accordingly to allow investment property under construction to be measured at cost if fair value cannot be measured reliably, until such time as the fair value can be measured reliably.
- Additional guidance has been included in the examples of investment property to clarify that the rentals earned do not have to be on a commercial basis or market related for the property to be classified as investment property.

Disclosure:
Entities are encouraged, rather than required, to disclose the fair value of investment property when this is materially different from the carrying amount.

Amendments to be applied as follow:
- Paragraphs .10(e), .54, .59, .62 and .65 were amended, paragraphs .60 and .61 were added and paragraph .25 and .11 (d) of the original text (2004) was deleted by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact. The related amendment to paragraph .05 in the Standard of GRAP on Property, Plant and Equipment is also applied earlier.
- Any other amendments to the Standards of GRAP shall be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

2. New standards and interpretations (continued)

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 17 (as revised 2010): Property, Plant and Equipment

The revision resulted in various terminology and definition changes.

Scope:
- The recognition and measurement of exploration and evaluation assets have been added to the scope exclusions.
- Investment properties under construction have been removed from the scope.

Measurement at initial recognition:
Paragraph .23 and .24 have been amended to clarify that the guidance applicable to determine fair value for revalued assets applies equally to the initial measurement of items of property, plant and equipment at fair value.

Depreciable amount and depreciation period:
An additional paragraph has been added to clarify that reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Derecognition:
- The requirement to not classify gains from the disposal of property, plant and equipment as revenue, has been removed.
- Paragraph .79 has been added in line with the IASB Improvements Project to clarify that where assets are held for rental to others in the ordinary course of operations and the entity subsequently sells the assets, the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations does not apply. Rather, these assets are to be transferred and treated in accordance with the Standard of GRAP on Inventories.

Disclosures:
- The required disclosures in paragraph .90 have been amended to encouraged disclosures. Added to the list of encourage disclosures is the fair value disclosure of assets where the cost model is used.
- The requirement to disclose the cost basis for revaluated assets was removed.

Amendments to be applied as follow:
- Paragraphs .05, .23 and .24 were amended and paragraph .79 was added by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact.
- Any other amendments to the Standards of GRAP shall be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets

The revision resulted in certain terminology changes.

Social benefits:
Paragraphs .08 and .16(a) clarify that social benefits due at year end are ‘payables’, as the amounts due are certain in terms of legislation.

Binding agreements for restructurings:
Paragraph .87 has been amended to clarify that restructurings may take place in the public sector in terms of directives, legislation or other means. These alternative means are enforceable and may give rise to an obligation.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Interpretations:
In developing the Standard initially, the Board included relevant text from any Interpretation that had been issued by the International Financial Reporting Interpretations Committee (IFRIC) relating to provisions, contingent liabilities and contingent assets. The Board included selected text from IFRIC 1 on Changes in Decommissioning, Restoration and Similar Liabilities and IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds in line with the Board's decisions. The Board concluded at its May 2008 meeting that it would issue any Interpretations as separate documents rather than dispersing the text of the Interpretations across various Standards. As a result, paragraphs .37 to .43, .74 to .80, and Appendix F of the previous version of GRAP 19, have been deleted.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2011.

The municipality expects to adopt the amendment for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

2.2 Standards and Interpretations early adopted

The municipality has not chosen to early adopt any standards and interpretations.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

2. New standards and interpretations (continued)

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

2. New standards and interpretations (continued)

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:
- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:
- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

2. New standards and interpretations (continued)

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The municipality has adopted the interpretation for the first time in the 2011 annual financial statements.

The impact of the interpretation is not material.

3. Biological assets

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game	1	-	1	1	-	1

Reconciliation of biological assets - 2011

	Opening balance	Total
Other consumable biological assets	1	1

Reconciliation of biological assets - 2010

	Opening balance	Total
Other consumable biological assets	1	1

Transitional provisions

Biological assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in the note certain biological assets with a carrying value of R 1 (2010: R 1) was recognised at provisional amounts. Carrying amounts of biological assets and/or agricultural produce carried at provisional amounts are as follows:

Due to initial adoption of GRAP 101

Game	1	1

Steps taken to establish the values of biological assets and/or agricultural produce recognised at provisional amounts due to the initial adoption of GRAP 101, is as follows:

The municiplaity will use the services of an accredible service provider which will assist in determining the valuation of the Biological assets.

Transitional provisions on valuation still applies, however game count was carried out at year end and a report was issued to that effect.

The date at which full compliance with GRAP 101 is expected, is 30 June 2012.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1	-	1	1	-	1

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	1	1

Reconciliation of investment property - 2010

	Opening balance	Total
Investment property	1	1

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Transitional provisions

Investment property recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in the note certain investment property with a carrying value of R 1 (2010: R 1) was recognised at provisional amounts. Carrying amounts of investment property carried at provisional amounts are as follows:

Due to initial adoption of GRAP 16

Steps taken to establish the values of investment property recognised at provisional amounts due to the initial adoption of GRAP 16, is as follows:

The municipality will appoint a credible service provider to value their investment properties at market value.

The date at which full compliance with GRAP 16 is expected, is 30 June 2012.

5. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Plant and machinery	374,862	-	374,862	122,330	-	122,330
Furniture and fixtures	230,973	-	230,973	230,973	-	230,973
Motor vehicles	3,443,017	-	3,443,017	3,273,691	-	3,273,691
Office equipment	240,871	-	240,871	232,340	-	232,340
IT equipment	1,227,848	-	1,227,848	556,468	-	556,468
Infrastructure	76,121,310	-	76,121,310	42,260,697	-	42,260,697
Total	**81,638,881**	**-**	**81,638,881**	**46,676,499**	**-**	**46,676,499**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Total
Plant and machinery	122,330	252,532	374,862
Furniture and fixtures	230,973	-	230,973
Motor vehicles	3,273,691	169,326	3,443,017
Office equipment	232,340	8,531	240,871
IT equipment	556,468	671,380	1,227,848
Infrastructure	42,260,697	33,860,613	76,121,310
	46,676,499	**34,962,382**	**81,638,881**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Plant and machinery	-	122,330	122,330
Furniture and fixtures	-	230,973	230,973
Motor vehicles	3,273,691	-	3,273,691
Office equipment	-	232,340	232,340
IT equipment	-	556,468	556,468
Infrastructure	18,570,605	23,690,092	42,260,697
	21,844,296	**24,832,203**	**46,676,499**

Capitalised expenditure(excluding borrowing costs)

Plant and machinery	252,532	276,935
Furniture and fixtures	-	78,759
Motor vehicles	169,326	-
Office equipment	8,531	152,857
IT equipment	671,380	467,428
Infrastructure	36,983,878	34,493,381
	38,085,647	**35,469,360**

5. Property, plant and equipment (continued)

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in the note certain property, plant and equipment with a carrying value of R 84,762,146 (2010: R 46,676,499) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

Due to initial adoption of GRAP 17

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

1. The Municipality has identified all its infrastrucutre and moveable assets.
2. The Municipality will go out on tender process to retreive accredited values as per Directive 7.

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

6. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Website Development	103,621	-	103,621	103,621	-	103,621

Reconciliation of intangible assets - 2011

	Opening balance	Total
Website Development	103,621	103,621

Reconciliation of intangible assets - 2010

	Opening balance	Total
Website Development	103,621	103,621

Transitional provisions

Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in the note certain intangible assets with a carrying value of R 103,621 (2010: R 103,621) was recognised at provisional amounts. Carrying amounts of intangible assets carried at provisional amounts are as follows:

Due to initial adoption of GRAP 102

Website Development	103,621	103,621

Steps taken to establish the values of intangible assets recognised at provisional amounts due to the initial adoption of GRAP 102, is as follows:

The municiplaity will use the services of an accredible service provider which will assist in determining the valuation of the Intangible assets.

The date at which full compliance with GRAP 102 is expected, is 30 June 2012.

Notes to the Annual Financial Statements

Figures in Rand		2011	2010
7. Other financial assets			
Investments held			
ABSA Bank Limited: Fixed deposit		149,410	141,846
The above is a fixed depositt investment with details as below:			
Start date	2011/06/23		
Maturity date	2011/08/02		
Investment Amount	R 149,409.59		
Interest rate	6%		
Sanlam Limited: Money Market Investments		501,524	352,272
The above is an investment in money market collective investments schemes with the details as below:			
Fund Unit Balance	R 501,523.03		
Price per Unit (c)	100c		
Market Value (Rc) at 30/06/11	R 501,523.03		
Old Mutual Limited: Investment fund		2,423,569	2,359,016
The above is a fixed depositt investment with details as below:			
Investment Reference number:	13543332		
		3,074,503	**2,853,134**
Non-current assets			
Investments		3,074,503	2,853,134

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

8. Employee benefit obligations

Defined benefit plan

The GRAP 25 Statement sets out the measurement recognition and disclosure requirements in accounting for post-retirement "defined benefit" plans. It is recommended that the Municipality consult with their auditors in determining the appropriate approach for reflecting the results of this valuation in their Financial Statements.

Post retirement medical aid plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

In estimating the liability for post-employment health care benefits a number of assumptions are required. GRAP 25 Statement places the responsibility on management to set these assumptions as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the post-employment health care arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

The key financial and demographic assumptions are summarised below:

Figures in Rand	2011	2010

8. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

	2011	2010
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(11,790,584)	(12,377,059)

The fair value of plan assets includes:

Net expense recognised in the statement of financial performance

	2011	2010
Opening Balance	1,635,463	-
Current service cost	727,242	782,470
Interest cost	927,529	942,895
Actuarial (Gain)/Loss Recognised in P&L	2,976,107	(2,124,558)
Transitional Liability Recognised	2,154,260	2,154,260
Expected Employer Benefit Payments	(116,688)	(119,604)
Total included in employee related costs	**8,303,913**	**1,635,463**

Key assumptions used

Key financial assumptions used at the reporting date:

	2011	2010
Discount rates used	8.74 %	8.74 %
Health care cost inflation rate	7.28 %	7.28 %
Net effective discount rate	1.37 %	1.37 %

Key demographic assumptions used at the report date:

	2011	2010
Average retirement age	63	63
Continuation of membership at retirement	95.00 %	95.00 %
Proportion assumed married at retirement	95.00 %	95.00 %
Proportion of eligible current non-member employees joining the scheme by retirement	30.00 %	30.00 %
Mortality during employment	SA 85-90	SA 85-90
Mortality post-retirement	PA 90-1	PA 90-1

Figures in Rand	2011	2010

9. Inventories

Water	1	1
Consumable goods	2,502,319	2,434,040
	2,502,320	2,434,041
Inventories	596,946	19,829
	3,099,266	**2,453,870**

Transitional provisions

Inventories recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain inventories with a carrying value of R - (2010: R -) wa s recognised at provisional amounts. Carrying amounts of inventories carried at provisional amounts are as follows:

Due to initial adoption of GRAP 12

Steps taken to establish the values of inventories recognised at provisional amounts due to the initial adoption of GRAP 12, is as follows:

Indepht analysis will be done with assistance from the technical department to validate the measurement of inventory held.

The date at which full compliance with GRAP 12 is expected, is 30 June 2012.

10. Trade and other receivables from exchange transactions

Trade debtors	-	(73,608)
Prepayments	-	1,200,000
Other receivables	544,469	575,432
	544,469	**1,701,824**

11. VAT receivable

VAT	8,454,672	11,513,141

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

12. Consumer debtors

Gross balances		
Rates	14,887,937	10,893,364
Electricity	4,553,485	3,842,007
Water	18,269,316	12,439,888
Sewerage	6,589,989	4,938,561
Refuse	5,051,978	3,807,162
Other - (Interest and other major items)	31,723,529	37,288,106
	81,076,234	**73,209,088**

Less: Provision for debt impairment		
Rates	(12,967,071)	(6,514,367)
Electricity	(4,437,217)	(3,450,014)
Water	(14,044,037)	(10,883,685)
Sewerage	(5,816,773)	(3,769,599)
Refuse	(4,485,961)	(2,881,939)
Other - (Interest and other major items)	(30,444,369)	(31,782,009)
	(72,195,428)	**(59,281,613)**

Net balance		
Rates	1,920,866	4,378,997
Electricity	116,268	391,993
Water	4,225,279	1,556,203
Sewerage	773,216	1,168,962
Refuse	566,017	925,223
Other - (Interest and other major items)	1,279,160	5,506,097
	8,880,806	**13,927,475**

Rates		
Current (0 -30 days)	660,623	(193,201)
31 - 60 days	490,653	269,372
61 - 90 days	446,612	218,110
91 - 120 days	322,978	4,084,716
	1,920,866	**4,378,997**

Electricity		
Current (0 -30 days)	192,821	(274,635)
31 - 60 days	(256,211)	118,491
61 - 90 days	397,847	(84,595)
91 - 120 days	(218,189)	632,732
	116,268	**391,993**

Water		
Current (0 -30 days)	1,927,580	(471,376)
31 - 60 days	899,431	(131,768)
61 - 90 days	891,567	601,819
91 - 120 days	506,701	1,557,528
	4,225,279	**1,556,203**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

12. Consumer debtors (continued)

Sewerage		
Current (0 -30 days)	198,431	90,405
31 - 60 days	202,317	20,284
61 - 90 days	197,052	85,153
91 - 120 days	175,416	973,120
	773,216	**1,168,962**

Refuse		
Current (0 -30 days)	153,757	50,176
31 - 60 days	131,548	16,200
61 - 90 days	151,387	55,845
91 - 120 days	129,325	803,002
	566,017	**925,223**

Other (specify)		
Current (0 -30 days)	643,463	1,562,493
31 - 60 days	234,052	431,314
61 - 90 days	286,385	605,461
91 - 120 days	115,260	2,906,829
	1,279,160	**5,506,097**

Summary of debtors by customer classification

National and provincial government		
Current (0 -30 days)	1,281,954	-
31 - 60 days	(747,061)	-
61 - 90 days	569,427	-
91 - 120 days	(265,794)	-
121 - 365 days	2,055,208	-
	2,893,734	**-**

Industrial/ commercial		
Current (0 -30 days)	2,816,624	-
31 - 60 days	1,589,742	-
61 - 90 days	1,528,899	-
91 - 120 days	1,003,639	-
121 - 365 days	28,242,334	-
	35,181,238	**-**

Consumers		
Current (0 -30 days)	(321,902)	-
31 - 60 days	859,109	-
61 - 90 days	272,525	-
91 - 120 days	293,646	-
121 - 365 days	23,387,885	-
	24,491,263	**-**

Figures in Rand	2011	2010

12. Consumer debtors (continued)

Total		
Current (0 -30 days)	3,776,676	763,862
31 - 60 days	1,701,790	723,893
61 - 90 days	2,370,851	1,481,793
91 - 120 days	1,031,491	10,957,927
121 - 365 days	72,195,427	59,281,613
	81,076,235	73,209,088
Less: Provision for debt impairment	(72,195,429)	(59,281,613)
	8,880,806	**13,927,475**

Less: Provision for debt impairment		
> 120 days	(72,195,428)	(59,281,613)

Reconciliation of debt impairment provision		
Balance at beginning of the year	(59,281,613)	(54,773,349)
Contributions to provision	(12,913,815)	(4,508,264)
	(72,195,428)	**(59,281,613)**

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2011, R 2,632,138 (2010: R 4,837,103) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1,701,790	723,893
2 months past due	2,370,851	1,481,793
3 months past due	1,031,491	10,957,927

Consumer debtors impaired

As of 30 June 2011, consumer debtors of R 72,195,427 (2010: R 59,281,613) were impaired and provided for.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	34,334	14,430
Bank overdraft	(3,200,785)	(10,743,288)
	(3,166,451)	**(10,728,858)**

Current assets	34,334	14,430
Current liabilities	(3,200,785)	(10,743,288)
	(3,166,451)	**(10,728,858)**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**		**Cash book balances**	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
ABSA Bank - Cheque Account - 1580000009	519,520	4,730	(3,262,272)	(11,031,041)
ABSA Bank - Cheque Account (RDP) - 4058303004	66,967	287,753	67,126	287,753
Total	**586,487**	**292,483**	**(3,195,146)**	**(10,743,288)**

14. Other financial liabilities

Held at amortised cost		
Infrastructure Finance Corporation Limited	-	20,822
Development Bank of South Africa	8,979,332	9,568,926
	8,979,332	**9,589,748**

Refer to appendix A for more details on the loans.

Non-current liabilities		
At amortised cost	7,351,819	7,355,955
Current liabilities		
At amortised cost	1,627,513	2,233,793
	8,979,332	**9,589,748**

15. Finance lease obligation

Present value of minimum lease payments due		
- within one year	-	207,487

Present value of minimum lease payments due		
- within one year	-	207,487

The average lease term was 4-6 years and the average effective borrowing rate was linked to the prime lending rate.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 5.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	2,483,331	-

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 23 for reconciliation of grants from Provincial Government.

17. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for Landfill site	6,432,599	122,526	-	-	6,555,125
Provision for leave	5,141,809	1,352,664	(340,654)	340,654	6,494,473
13th Cheque Provision	1,017,486	888,662	-	-	1,906,148
	12,591,894	**2,363,852**	**(340,654)**	**340,654**	**14,955,746**

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for Landfill site	4,822,000	1,610,599	-	-	6,432,599
Provision for leave	3,360,770	2,495,130	(404,210)	(309,881)	5,141,809
13th Cheque Provision	652,729	364,757	-	-	1,017,486
	8,835,499	**4,470,486**	**(404,210)**	**(309,881)**	**12,591,894**

Non-current liabilities	6,555,125	6,432,599
Current liabilities	8,400,621	6,159,295
	14,955,746	**12,591,894**

18. Trade and other payables from exchange transactions

Trade payables	48,519,199	4,719,773
Payments received in advanced - contract in process	-	3,866,137
Accruals	-	27,248,879
Deposits received	2,859,049	320,555
	51,378,248	**36,155,344**

19. Consumer deposits

Deposits held	3,104,524	3,043,039

Figures in Rand	2011	2010

20. Revenue

Rendering of services	613,796	317,954
Property rates	15,833,554	8,895,411
Service charges	76,825,748	54,421,114
Rental of facilities	498,382	590,610
Interest received – trading	3,953,069	5,113,741
Licences and permits	5,889,994	2,065,035
Government grants and subsidies	81,954,778	62,323,125
	185,569,321	**133,726,990**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	613,796	317,954
Service charges	76,825,748	54,421,114
Rental of facilities & equipment	498,382	590,610
Interest received – trading	3,953,069	5,113,741
Licences and permits	5,889,994	2,065,035
	87,780,989	**62,508,454**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	15,833,554	8,895,411
Transfer revenue		
Government grants and subsidies	81,954,778	62,323,125
	97,788,332	**71,218,536**

21. Property rates

Rates received

Residential	8,308,952	3,985,281
Commercial	2,641,821	1,900,130
State	1,006,154	211,509
Small holdings and farms	3,876,627	2,798,491
	15,833,554	**8,895,411**

Valuations

Residential	4,229,088,837	4,229,088,837
Commercial	2,836,112,578	2,836,112,578
State	146,681,900	146,681,900
Municipal	45,731,100	45,731,100
Small holdings and farms	262,485,300	262,485,300
Social	25,139,300	25,139,300
	7,545,239,015	**7,545,239,015**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2007 to 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Figures in Rand	2011	2010

22. Service charges

Sale of electricity	32,363,613	23,755,994
Sale of water	29,566,947	14,195,748
Sewerage and sanitation charges	8,284,690	9,070,055
Refuse removal	6,610,498	7,399,317
	76,825,748	**54,421,114**

23. Government grants and subsidies

Equitable share	48,296,109	32,911,723
Municipal Infrastructure Grant	26,408,669	26,926,404
Financial Management Grant	1,500,000	750,000
Municipal Systems Improvement Program Grant	750,000	734,998
Integrated National Electrification Program Grant	5,000,000	1,000,000
	81,954,778	**62,323,125**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Current-year receipts	28,892,000	26,926,404
Conditions met - transferred to revenue	(26,408,669)	(26,926,404)
	2,483,331	**-**

Conditions still to be met - remain assets (see note 16)

Financial Management Grant

Current-year receipts	1,500,000	750,000
Conditions met - transferred to revenue	(1,500,000)	(750,000)
	-	-

All conditions to the FMG were met during the year.

Municipal Systems Improvement Program Grant

Current-year receipts	750,000	734,998
Conditions met - transferred to revenue	(750,000)	(734,998)
	-	-

All conditions to the Municipal Systems Improvement Program Grant were met during the year.

Figures in Rand	2011	2010

23. Government grants and subsidies (continued)

Integrated National Electrification Programme Grant

Current-year receipts	5,000,000	1,000,000
Conditions met - transferred to revenue	(5,000,000)	(1,000,000)
	-	-

All conditions to the Integrated National Electrification Programme Grant were met during the year.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

24. Other revenue

Recovery of unauthorised, irregular, fruitless and wasteful expenditure	-	172,778
LG Seta Grant	3,203,005	3,273,959
	3,203,005	**3,446,737**

25. Other income

Admin cost stores	583,457	877,504
Building plan fees	232,076	378,719
Clearance Certificates	7,376	3,245
Donations received	29,400	-
Fax & telephone	3,714	3,950
Final request	-	61,376
Fines	465,793	178,953
Fire services	175	22,555
General	217,545	183,944
Hawkers	109,400	55,174
LG Seta	152,149	421,677
Meter reading fees	78,570	15,166
Reconnection fees	-	396,286
Road worthy certificate	119,218	59,780
Sale of photo copies	17,718	76,132
Sale of refuse bags	94,441	103,799
Subsidy	473,779	287,682
Supply of information	12,307	13,357
Surplus cash	500,122	48,210
Tender fees	105,765	86,450
	3,203,005	**3,273,959**

The above LG Seta Grant is received based on the municipality's compliance with the SDL regulations and training as per the Skills Development Act.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

26. General expenses

Accruals movement for the year	-	69,858
Advertising	282,182	129,680
Auditors remuneration	2,071,951	1,532,489
Bank charges	114,960	77,398
Cleaning	134,724	160,656
Community development and training	293,008	267,160
Consulting and professional fees	4,938,664	3,911,540
Consumables	153,449	172,141
Delegates expenditure	111,964	42,602
Entertainment	321,552	193,266
Insurance	1,013,161	667,471
Lease rentals on operating lease	1,036,137	592,052
Licence fees paid	55,192	37,202
Magazines, books and periodicals	490	-
Meter readings cost	-	1,030,712
Motor vehicle expenses	3,208,323	3,046,695
Postage and courier	201,735	211,723
Printing and stationery	579,612	544,502
Promotions and sponsorships	-	356,515
Protective clothing	785,334	163,385
Refuse	161,491	82,222
Research and development costs	-	1,637
Security (Guarding of municipal property)	251,508	217,527
Sewerage and waste disposal	119,160	917
Stock written off	-	27,482
Subscriptions and membership fees	55,954	460,522
Telephone and fax	2,240,256	1,073,017
Town planning	30,842	2,474
Training	22,318	865,843
Travel - local	1,943,617	1,012,556
	20,127,584	**16,951,244**

27. Operating surplus/(deficit)

Operating surplus/(deficit) for the year is stated after accounting for the following:

Operating lease charges		
Premises		
• Contractual amounts	707,974	592,052
Equipment		
• Contractual amounts	328,163	-
	1,036,137	**592,052**

Gain on sale of property, plant and equipment	722,609	617,549
Employee costs	66,676,894	55,541,241
Research and development	-	1,637

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

28. Employee related costs

Basic	32,725,972	29,419,247
Bonus	2,436,015	1,918,400
Medical aid - company contributions	2,179,927	1,751,636
UIF	333,865	279,196
WCA	74,705	2,807
SDL	345,345	335,933
Leave pay provision charge	431,542	374,285
Post-employment benefits - Pension - Defined contribution plan	6,733,642	5,397,405
Travel, motor car, accommodation, subsistence and other allowances	3,710,486	2,892,574
Overtime payments	4,426,015	2,552,392
Post retirement contributions	566,160	343,573
Industrial council levy	16,106	13,488
	53,979,780	**45,280,936**

Remuneration of municipal manager

Annual Remuneration including benefits and allowances	918,846	790,134
Travel, Cellphone and other allowances	141,005	136,512
	1,059,851	**926,646**

Remuneration of chief finance officer

Annual Remuneration including benefits and allowances	727,386	431,503
Travel, Cellphone and other allowances	146,814	100,442
	874,200	**531,945**

Remuneration of director: Corporate services

Annual Remuneration including benefits and allowances	738,906	646,926
Travel, Cellphone and other allowances	141,275	134,189
Contributions to UIF, Medical and Pension Funds	66,519	64,000
	946,700	**845,115**

Remuneration of director: Community & social services

Annual Remuneration including benefits and allowances	632,483	365,246
Travel, Cellphone and other allowances	133,631	76,300
Contributions to UIF, Medical and Pension Funds	8,653	6,500
	774,767	**448,046**

Remuneration of director: Planning & Development

Annual Remuneration including benefits and allowances	736,641	706,581
Travel, Cellphone and other allowances	163,200	172,852
Performance Bonuses	43,026	38,023
	942,867	**917,456**

Remuneration of director: Technical Services

Annual Remuneration including benefits and allowances	810,980	646,009
Travel, Cellphone and other allowances	186,889	187,616
	997,869	**833,625**

Figures in Rand	2011	2010

29. Remuneration of councillors

Executive Major	749,493	687,035
Speaker	583,423	568,808
Councillors	4,770,075	4,501,629
	6,102,991	**5,757,472**

30. Investment revenue

Interest revenue		
Bank and investments	268,753	1,487,875

31. Depreciation and amortisation

As this was the second year of GRAP, the municiaplity elected to apply the transitional provision as set out in directive 4. Therefor no depreciation was calculated hence the useful life and residual value of assets were not calculated.

32. Finance costs

Bank and long term loans	1,097,634	2,051,414

33. Auditors' remuneration

Fees	2,071,951	1,532,489

34. Grants and subsidies paid

Other subsidies		
Indigent grants	970,867	4,384,615

35. Bulk purchases

Electricity	32,218,478	21,910,597
Water	16,238,528	12,754,266
Sewer purification	3,260,728	989,247
	51,717,734	**35,654,110**

36. Cash generated from/(used in) operations

Surplus / (deficit)	15,073,709	(2,154,436)
Adjustments for:		
Loss on sale of assets and liabilities	(722,609)	(617,549)
Debt impairment	12,913,814	4,508,265
Movements in operating lease assets and accruals	328,163	-
Movements in retirement benefit assets and liabilities	(586,475)	-
Movements in provisions	2,363,852	2,145,796
Changes in working capital:		
Inventories	(645,396)	4,095,147
Trade and other receivables from exchange transactions	1,157,355	(1,374,386)
Consumer debtors	(7,867,147)	(9,512,294)
Trade and other payables from exchange transactions	15,222,901	15,997,847
VAT	3,058,469	(374,672)
Unspent conditional grants and receipts	2,483,331	(927,389)
Consumer deposits	61,485	(18,570)
	42,841,452	**11,767,759**

Figures in Rand	2011	2010

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Retentions	2,595,283	1,080,742

This committed expenditure relates to plant and equipment, and retensions and will be financed by available bank facilities, retained surpluses, existing cash resources, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	1,072,994	741,247
- in second to fifth year inclusive	2,334,129	3,032,279
	3,407,123	**3,773,526**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

38. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report
Post employment benefit plan for employees of entity and/or other related parties	Municipal Gratuity Fund

Related party balances

Amounts included in Trade receivable / (Trade Payable) regarding related parties		
National Treasury	-	3,146,828
Department of Transport	(5,634,429)	(626,977)

Related party transactions

Rent paid to / (received from) related parties		
Irvan Keyser	210,422	187,619

39. Accounting Officer's emoluments

Executive

2011

	Emoluments	Total
Mr. T.S.R. Nkhumise	1,059,851	1,059,851

2010

	Emoluments	Total
Mr. T.S.R. Nkhumise	926,646	926,646

40. Prior period errors

The following prior year errors were identified and adjusted retrospectively:

- Provision for landfill site was not recognised in terms of GRAP 19.
- Provision for retirement benefit obligation was not recognised in terms of GRAP 25.
- Investment property was not recognised in terms of GRAP 16.
- Water inventory was not recognised in terms of GRAP 12.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Accumulated surplus	-	17,199,057
Inventory	-	1
Investment Property	-	1
Provisions	-	(17,199,058)

41. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 15, 14, cash and cash equivalents disclosed in note 13, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to member, return capital to member, issue new shares or sell assets to reduce debt.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

41. Risk management (continued)

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

42. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

43. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	-	25,200

Fraudulent payments occurred in the prior year. These were handed over to the special investigation unit of Limpopo.

During the current financial year interest was charged on accounts that were no settled on time.

44. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus / (deficit) per the statement of financial performance	15,073,709	(2,154,436)
Adjusted for:		
Property rates	(14,719,313)	4,572,621
Service charges	(6,514,190)	51,259,242
Interest received (Trading)	1,313,741	450,232
Licences and permits	723,881	1,530,841
Government grants and subsidies	(3,456,496)	57,327,481
Recoveries	172,778	-
Other income	(1,015,652)	3,988,477
Other grants	601,904	464,864
Interest received (Investments)	255,450	2,415,565
Personnel	51,534	(27,646,355)
Administration	-	(2,184,431)
Depreciation	1,579,254	-
Finance cost	(117,523)	(2,603,230)
Debt impairment	(13,772,508)	(14,198,753)
Repairs and maintenance	481,383	(4,280,801)
Bulk purchases	(1,216,723)	(25,780,677)
Grants and subsidies paid	1,215,385	(4,958,084)
General expenses	29,247,400	(38,118,772)
Net (deficit) / surplus per approved budget	**(8,166,092)**	**119,390,023**

Figures in Rand	2011	2010

45. Additional disclosure in terms of Municipal Finance Management Act

SALGA Fees

Current year subscription / fee	27,443	10,781
Amount paid - current year	(24,536)	(10,781)
	2,907	**-**

PAYE and UIF

Current year subscription / fee	5,932,648	4,627,240
Amount paid - current year	(5,530,392)	(4,472,010)
Amount paid - previous years	(155,230)	-
	247,026	**155,230**

Pension and Medical Aid Deductions

Current year subscription / fee	11,691,803	9,394,277
Amount paid - current year	(10,628,726)	(9,394,277)
	1,063,077	**-**

VAT

VAT receivable	8,454,672	11,513,141

VAT output payables and VAT input receivables are shown in note 11.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. A.S. Khumalo	-	(179)	(179)
Cllr. C.S. Sikwane	-	(147)	(147)
Cllr. D.A. Moatshe	-	(5)	(5)
Cllr. M.L. Moselane	-	2,974	2,974
Cllr. N.D. Tlhabadira (Chief Whip)	-	727	727
Cllr. P.A. Mosito (Mayor)	-	(799)	(799)
Cllr. P.J. Strydoom	-	297	297
Cllr. R.A. Ramogale	-	(976)	(976)
Cllr. S.G. Lerumo	-	(76)	(76)
Cllr. T.D. Molefe	-	516	516
Cllr. V.S Mothoa (Speaker)	-	17,856	17,856
	-	**20,188**	**20,188**

Figures in Rand	2011	2010

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2011	Highest outstanding amount	Aging (in days)
Cllr. R.A. Ramogale	(976)	360
Cllr. P.A. Mosito (Mayor)	(799)	360
Cllr. A.S. Khumalo	(179)	360
Cllr. C.S. Sikwane	(147)	360
Cllr. S.G. Lerumo	(76)	360
Cllr. D.A. Moatshe	(5)	360
Cllr. P.J. Strydoom	297	360
Cllr. T.D. Molefe	516	120
Cllr. N.D. Tlhabadira (Chief Whip)	727	360
Cllr. M.L. Moselane	2,974	360
Cllr. V.S Mothoa (Speaker)	17,856	360
	20,188	**3,720**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

46. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	8,979,332	9,589,748

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

47. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix D for the comparison of actual operating expenditure versus budgeted expenditure.

48. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Thabazimbi Local Municipality

Appendix A

Schedule of external loans as at 30 June 2011

	Loan Number	Redeemable	Balance at 30 June 2010 Rand	Paid during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2011 Rand
Development Bank of South Africa						
Streets & Stormwater	10719/101	30/09/2018	4,629,217	(324,611)	-	4,304,606
Resealing of Streets	10916/303	31/03/2018	199,055	(14,229)	-	184,826
Upgr Sewer Purification Works	13523/101	31/03/2018	305,000	(30,500)	-	274,500
Upgr Sewer Purification Works	10916/203	31/03/2018	209,227	(14,957)	-	194,270
Electricity Lalf 15498	12945/101	30/06/2015	1,034,875	4,278	-	1,039,153
Upgr. Electricity Network	10916/103	31/03/2018	452,750	(32,365)	-	420,385
Leeupoort Lalf 15327	12386/101	31/12/2012	610,114	(66,243)	-	543,871
Northam Lalf 15330	12391/5/6/7	31/12/2012	98,787	(10,726)	-	88,061
Regorogile Road Brick Paving	101958/1	30/06/2016	2,029,738	(100,079)	-	1,929,659
			9,568,763	**(589,432)**	**-**	**8,979,331**
Total external loans						
Development Bank of South Africa			9,568,763	(589,432)	-	8,979,331
			9,568,763	**(589,432)**	**-**	**8,979,331**

Thabazimbi Local Municipality

Appendix B

Analysis of property, plant and equipment as at 30 June 2011

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Infrastructure														
Buildings and grouped infrastructure	42,260,697	36,983,878	-	-	-	-	**79,244,575**	-	-	-	-	-	-	79,244,575
	42,260,697	**36,983,878**	**-**	**-**	**-**	**-**	**79,244,575**	**-**	**-**	**-**	**-**	**-**	**-**	**79,244,575**

Thabazimbi Local Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2011

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Other assets														
General vehicles	3,273,691	169,326	-	-	-	-	**3,443,017**	-	-	-	-	-	-	3,443,017
Plant & equipment	122,330	252,532	-	-	-	-	**374,862**	-	-	-	-	-	-	374,862
Computer Software and Equipment	556,468	671,380	-	-	-	-	**1,227,848**	-	-	-	-	-	-	1,227,848
Furniture & Fittings	230,973	8,531	-	-	-	-	**239,504**	-	-	-	-	-	-	239,504
Office Equipment	232,340	-	-	-	-	-	**232,340**	-	-	-	-	-	-	232,340
	4,415,802	**1,101,769**	-	-	-	-	5,517,571	-	-	-	-	-	-	5,517,571
Total property plant and equipment														
Infrastructure	42,260,697	36,983,878	-	-	-	-	**79,244,575**	-	-	-	-	-	-	79,244,575
Other assets	4,415,802	1,101,769	-	-	-	-	5,517,571	-	-	-	-	-	-	5,517,571
	46,676,499	**38,085,647**	-	-	-	-	**84,762,146**	-	-	-	-	-	-	**84,762,146**
Agricultural/Biological assets														
Biological assets	1	-	-	-	-	-	1	-	-	-	-	-	-	1
	1	-	-	-	-	-	1	-	-	-	-	-	-	1
Intangible assets														
Computers - software & programming	103,621	-	-	-	-	-	**103,621**	-	-	-	-	-	-	103,621
	103,621	-	-	-	-	-	103,621	-	-	-	-	-	-	103,621
Investment properties														
Investment property	1	-	-	-	-	-	1	-	-	-	-	-	-	1
	1	-	-	-	-	-	1	-	-	-	-	-	-	1
Total														
Infrastructure	42,260,697	36,983,878	-	-	-	-	**79,244,575**	-	-	-	-	-	-	79,244,575
Other assets	4,415,802	1,101,769	-	-	-	-	5,517,571	-	-	-	-	-	-	5,517,571
Agricultural/Biological assets	1	-	-	-	-	-	1	-	-	-	-	-	-	1
Intangible assets	103,621	-	-	-	-	-	**103,621**	-	-	-	-	-	-	103,621
Investment properties	1	-	-	-	-	-	1	-	-	-	-	-	-	1
	46,780,122	**38,085,647**	-	-	-	-	**84,865,769**	-	-	-	-	-	-	**84,865,769**

Thabazimbi Local Municipality

Appendix D

Segmental Statement of Financial Performance for the year ended

Prior Year 2010				Current Year 2011		
Actual Income Rand	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**		**Actual Income Rand**	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**
			Municipality			
43,926,117	30,299,329	13,626,788	Executive & Council/Mayor and Council	66,573,156	21,446,728	45,126,428
35,870,239	44,127,124	(8,256,885)	Finance & Admin/Finance	33,401,816	28,371,531	5,030,285
378,719	3,696,491	(3,317,772)	Planning and Development/Economic Development/Plan	232,076	4,454,844	(4,222,768)
281,786	3,825,752	(3,543,966)	Comm. & Social/Libraries and archives	241,825	4,248,686	(4,006,861)
2,769,899	5,450,111	(2,680,212)	Public Safety/Police	5,178,370	8,427,580	(3,249,210)
-	3,062,722	(3,062,722)	Sport and Recreation	-	4,897,036	(4,897,036)
16,718,206	19,224,232	(2,506,026)	Waste Water Management/Sewerage	13,407,883	30,004,549	(16,596,666)
20,943,795	15,990,788	4,953,007	Water/Water Distribution	21,360,990	19,255,947	2,105,043
28,890,757	26,257,398	2,633,359	Electricity /Electricity Distribution	35,866,512	37,127,809	(1,261,297)
149,779,518	**151,933,947**	**(2,154,429)**		**176,262,628**	**158,234,710**	**18,027,918**
149,779,518	151,933,947	(2,154,429)	Municipality	176,262,628	158,234,710	18,027,918
149,779,518	**151,933,947**	**(2,154,429)**	**Total**	**176,262,628**	**158,234,710**	**18,027,918**

Thabazimbi Local Municipality

Appendix E(1)

Actual v Budget(Revenue and Expenditure) for the year ended 30 June 2011

	Current year 2011 Act. Bal. Rand	Current year 2011 Adjusted budget Rand	Variance Rand	Var %	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Rendering of services	615,927	532,487	83,440	15.7	
Property rates	16,027,047	24,031,454	(8,004,407)	(33.3)	Rebates were increased from 20% to 40% and also low revenue connection in some areas
Service charges	65,058,677	87,521,565	(22,462,888)	(25.7)	Low revenue connection and the underground metres in areas like Northam that made it difficult to for credit control to be effective
Rental of facilities and equipment	509,632	1,782,828	(1,273,196)	(71.4)	
Interest received (trading)	2,183,056	4,800,000	(2,616,944)	(54.5)	This was contributed by receivables that were written off during the year.
Licences and permits	5,889,995	2,620,981	3,269,014	124.7	Increase in contraventions and this resultant in poor payments.
Government grants & subsidies	81,954,592	84,477,000	(2,522,408)	(3.0)	
Other income	3,002,980	3,560,814	(557,834)	(15.7)	
Interest received - investment	268,753	804,000	(535,247)	(66.6)	
	175,510,659	210,131,129	(34,620,470)	(16.5)	
Expenses					
Personnel	(65,167,990)	(62,348,751)	(2,819,239)	4.5	
Finance costs	(1,097,634)	-	(1,097,634)	100.0	
Repairs and maintenance	(18,840,016)	(71,635,144)	52,795,128	(73.7)	Negative cash flow during the year
Bulk purchases	(51,767,209)	(5,408,797)	(46,358,412)	857.1	
Contracted Services	(17,029)	(8,731)	(8,298)	95.0	
Grants and subsidies paid	(974,493)	(15,129,480)	14,154,987	(93.6)	
General Expenses	(20,370,339)	(18,166,645)	(2,203,694)	12.1	
	(158,234,710)	(172,697,548)	14,462,838	(8.4)	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	751,968	-	751,968	100.0	
	751,968	-	751,968	-	
Net surplus for the year	18,027,917	37,433,581	(19,405,664)	(51.8)	

Thabazimbi Local Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar		Yes/ No	
Municipal Infrastructure Grant	Provincial	15,000,000	10,000,000	3,892,000	-	7,077,082	4,360,905	5,430,700	9,540,000	-	-	-	2,483,313		Yes	
Municipal Systems Improvement Program Grant	Provincial	750,000	-	-	-	187,500	143,250	162,765	256,485	-	-	-	-		Yes	
Financial Management Grant	Provincial	1,500,000	-	-	-	390,655	430,276	235,098	443,971	-	-	-	-		Yes	
Integrated National Electrification Program Grant	Provincial	-	4,000,000	1,000,000	-	-	1,785,005	1,852,098	1,362,897	-	-	-	-		Yes	
		17,250,000	14,000,000	4,892,000	-	7,655,237	6,719,436	7,680,661	11,603,353	-	-	-	2,483,313			